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RE: BPA's FY20 RDC Proposal

Powerex provides the following comments in response to BPA's Reserves Distribution Clause (RDC) proposal, to apply the $79.7 million of Transmission reserves to Transmission debt reduction, as presented at the November 19, 2020 Quarterly Business Review (QBR) Technical Workshop.

Powerex believes that the Transmission RDC should result in near-term and direct rate relief to BPA's Transmission customers. Transmission customers have contributed a significant amount to BPA's reserves through rates and have an expectation that when BPA's liquidity goals are met under the Financial Reserves Policy, BPA will no longer burden Transmission customers with additional liquidity requirements built into rates. While using the FY20 RDC for reduction of BPA's Transmission debt might be an appropriate form of rate relief, Powerex expects that this action will result in a reduced Transmission revenue requirement in subsequent rate cases.

At this time, BPA must acknowledge that it is already meeting its liquidity requirements and leverage ratio targets set forth in the Financial Reserves Policy and the Leverage Policy. Hence, BPA should not be considering revenue financing as per those policies.

In the interim, BPA should be working with customers to seek appropriate solutions to BPA's identified access to capital issue. As noted in previous comments, Powerex believes BPA should be funding their capital program through various available debt instruments, and appropriately allocating costs (principal, interest) to customers over the life of the funded assets. This is the only approach that is in line with the fundamental rate making principle of intergenerational equity. BPA's present customers should not be paying upfront for assets that will benefit future, potentially different, customers.

Aside from the Financial Reserves Policy, and the Leverage Policy, Powerex understands that BPA is also concerned about its financial objective of maintaining $1.5 Billion in Federal Treasury borrowing authority. While Powerex understands the rationale for this objective, Powerex would like to again repeat our concerns with BPA's numerous liquidity measures and inter-business line inequity. As noted in our October 13, 2020 comments in response to BPA's access to capital issue, Powerex is concerned with the narrative that Transmission is solely responsible for eroding BPA's Treasury borrowing authority. We request that BPA review those comments in whole to fully appreciate our concerns, but reiterate that:

1. By focusing only on Transmission's use of the Treasury Borrowing Authority, BPA is not considering its *total* debt portfolio and potential forms of liquidity.
2. The interplay of the Treasury Payment Probability ("TPP") standard, the Financial Reserves Policy and the objective of retaining $1.5 B Treasury borrowing authority creates significant inter-business line inequity. The interplay of these policies results in the Transmission business line carrying a disproportionate amount of the financial reserves obligation to ensure BPA meets its debt repayment obligations.

Taken together, these rate-setting and risk assessment processes, combined with BPA's recent Transmission revenue financing proposal, result in additional business line inequity because Transmission customers can be seen as revenue financing a disproportionate amount in support of the agency's liquidity requirements (a total sum that could well exceed $1 billion).

Powerex reiterates that each business line must fairly support BPA’s debt and liquidity requirements. Adding significant revenue financing over cumulative rate cases to Transmission rates is not the reasonable solution. As noted previously, BPA should be managing rate increases appropriately for each business line, including by maximizing the surplus value of the Federal System in markets to the benefit of BPA’s customers. By taking a leadership role in the various market design and evolution efforts occurring in our industry, BPA can work to ensure that full and fair compensation is received for the valuable attributes of the Federal Columbia River Power System, thereby mitigating rate impacts to all of BPA’s customers.

In conclusion, Powerex expects that the proposed uses of the FY20 RDC be included in the analysis of BPA’s rate proposals in subsequent rate cases. For the reasons noted above, Powerex urges BPA to put aside its current revenue financing proposal and instead work to find solutions to its long-term access to capital issue. Powerex also asks BPA to work with customers to find equitable solutions to inter-business line inequity embedded in its financial policies and objectives.

Thank you for consideration of our comments. We look forward to working with BPA and its customers on long term solutions to BPA’s financial issues.

Sincerely,

Connor Curson
Trade Policy, Powerex